
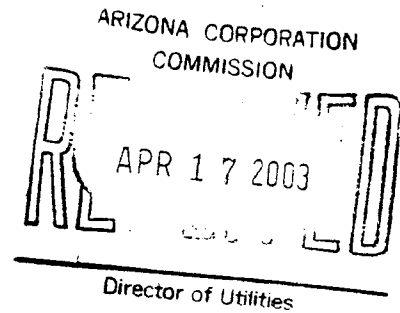


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Grand Canyon State Electric  
Cooperative Association, Inc.

Your Touchstone Energy Cooperatives 

April 16, 2003



Ernest G. Johnson, Director  
Utilities Division  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

*Re: Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., Navopache Electric Cooperative, Inc., Trico Electric Cooperative, Inc. and Sulphur Springs Valley Electric Cooperative, Inc. (collectively "Rural Electric Distribution Cooperatives" or "REDCs") Revisions and Issues List for the Electric Competition Advisory Group ("ECAG")*

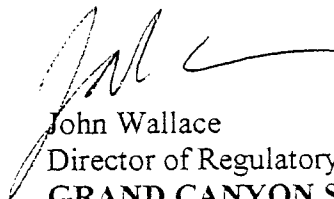
Dear Earnest:

As you requested in your March 19, 2003 request to the ECAG, enclosed are the REDCs Electric Competition Rules Revisions and Issues. A copy was e-mailed to Rodica Pasula today.

Comments by others in the ECAG or further developments in the process generally may lead the REDCs to supplement or modify its positions on the issues raised or issues raised by others.

If you or any other Staff member have any questions concerning the enclosed, please call.

Sincerely,



John Wallace  
Director of Regulatory & Strategic Services  
**GRAND CANYON STATE ELECTRIC  
COOPERATIVE ASSOCIATION, INC.**

Enclosure

cc with enclosure:

Erinn Andreasen, Utilities Division-ACC

**RURAL ELECTRIC DISTRIBUTION COOPERATIVE REVISIONS TO AND ISSUES  
WITH ARTICLE 16 RETAIL ELECTRIC COMPETITION RULES**

**Introduction**

The following revisions to the Article 16 Retail Electric Competition rules (“Rules”) are provided by Duncan Valley Electric Cooperative, Inc. (“Duncan”), Graham County Electric Cooperative, Inc. (“Graham”), Mohave Electric Cooperative, Inc. (“Mohave”), Navopache Electric Cooperative, Inc. (“Navopache”), Trico Electric Cooperative, Inc. (“Trico”) and Sulphur Springs Valley Electric Cooperative, Inc. (“Sulphur”) (collectively “Rural Electric Distribution Cooperatives” or “REDCs”). The REDCs submit this response to Staff’s March 19, 2003 request for comments concerning the Rules.

In making this filing, each of Duncan, Graham, Trico and Sulphur reserve all of its rights and arguments in the issues they have asserted in the pending appeal in the Court of Appeals, Division One, 1CA-CV01-0068, entitled *Phelps Dodge Corporation, et al., Intervenors-Appellants, Cross Appellants, Cross Appellees, Residential Utility Consumer Office, Intervenor-Appellant, the Arizona Corporation Commission, an agency of the State of Arizona, Defendant-Appellant, Cross Appellee, Arizona Electric Power Cooperative, Inc., et al., Plaintiff-Appellees, Cross Appellants*, and does not waive, in any manner, its legal positions asserted and its right in and to such issues and appeal.

At the beginning of 2002, the Arizona Corporation Commissioners sent letters to all interested parties asking for feedback on the ACC Retail Electric Competition Rules. The Commissioners’ questions appeared to open all of the ACC Retail Electric Competition Rules for debate. The

REDCs fully support this re-examination of the Rules. However, the REDCs have not had an opportunity to propose specific changes to the rules. Consequently, the REDCs' proposed rule changes may be broader than the focus of the Arizona Corporation Commission ("ACC" or "Commission") Staff's March 19, 2003 request proposed rule revisions.

Certain individual REDCs may supplement these proposed rule revisions. Please note that the REDCs have primarily provided revisions only to the rules that directly relate to, or directly impact, the Rural Electric Distribution Cooperatives' respective electric distribution operations. The REDCs reserve the right, individually and collectively, to provide comments and positions on any of the issues or proposed rule changes in this rulemaking as becomes necessary in the future. The REDCs, individually and collectively, also reserve the right to change opinions expressed below as new information becomes available.

## **RURAL ELECTRIC DISTRIBUTION COOPERATIVE REVISIONS TO RULES**

### **Revision No. 1**

R14-2-1604

Delete all of R14-2-1604 except for R14-2-1604(D), R14-2-1604(E) and R14-2-1604(F).

Renumber R14-2-1604 to conform to these changes.

### **Reason for Revision**

These sections of the rule are no longer necessary because as of January 1, 2001 all customers are eligible to obtain competitive services and the phase-in of competitive customers has expired.

### **Revision No. 2**

R14-2-1606(C)(6)

Eliminate R14-2-1606(C)(6).

### **Reason for Revision**

We believe this provision could be narrowly interpreted to preclude long term contracts between an REDC and its customers. REDCs should not be prohibited from entering into special long term contracts with customers. In most cases, special contracts allow REDCs to make appropriate arrangements for certain customers, to gain or retain customers and to stabilize the electric rates of all of the other REDCs' customers.

### **Revision No. 3**

R14-2-1609

Delete R14-2-1609(C) through and including R14-2-1609(J).

### **Reason for Revision**

The REDCs believe that Arizona Independent System Administrator (“AISA”) has cost customers thousands of dollars since it has been created and provides no benefits, now or in the foreseeable future, to customers. The AISA serves no purpose and should be eliminated.

Concerning the Independent System Operator (ISO), currently known as the Regional Transmission Organization (RTO), the theory is that an RTO will facilitate open access transmission and make more efficient use of the existing transmission system. However, RTOs are a new creature. Those working well are an outgrowth of already in-place power pools located in small geographic markets.

Further, the RTOs usefulness to end-use customers is highly questionable. Their purpose is to promote and facilitate competition – a policy choice. Apparently forgotten in the estimated \$120 to \$150 million RTO start up costs and \$100 million in annual RTO operating costs is the requirement that they benefit those whom the industry was originally designed to serve consumers. The majority of an RTO’s functions are currently already being provided by existing utilities. An RTO only adds another layer which performs essentially duplicative functions. There has yet been no demonstration of transmission market power or failure of open access in Arizona which would require an RTO as a solution needed to accomplish retail (or even wholesale) competition.

In conclusion, the REDCs believe that costs of the FERC RTO and Standard Market Design (SMD) proposals will far exceed the limited, if any, benefits to REDC customers. The REDCs' national organization, the National Rural Electric Cooperative Association ("NRECA"), has publicly taken a position opposing both RTOs and SMDs. The sections of the rules that discuss ISOs/RTOs should be eliminated.

#### **Revision No. 4**

R14-2-1612 (L), R14-2-1612 (O) and R14-2-1612 (P)

The following language should be inserted in each of these sections of the rule: "This subsection shall not apply to electric cooperatives."

#### **Reason for Revision**

R14-2-1612 (L), R14-2-1612 (O) and R14-2-1612 (P) should not apply to the REDCs. There are significant costs and investments (i.e. software, hardware, Electronic Data Interchange (EDI), additional employees, etc.) that are necessary in complying with R14-2-1612 (L), R14-2-1612 (O) and R14-2-1612 (P) that provide no benefits to the vast majority of REDCs customers. R14-2-1612 (L), R14-2-1612 (O) and R14-2-1612 (P) will only provide limited benefits to the small number of large REDC customers who may be able to participate in the retail competitive market, if a retail competitive market develops. The REDCs will remain subject to 200 series of the ACC's rules which provide for service quality, consumer protection, safety and billing requirements.

## **Revision No. 5**

R14-2-1613 and R14-2-1617

Suspend these rules until some level of retail competition occurs in the REDCs' service territories.

### **Reason for Revision**

Concerning R14-2-1613, the REDCs believe that reporting on competitive service offerings and direct access activity when there is no direct access activity or retail competition occurring is a waste of time and resources.

The consumer information label, the disclosure report and the terms of service required by R14-2-1617 will most likely only be provided to a small number of large REDC customers who may be able to participate in the retail competitive market, if a retail competitive market develops. In addition, as pointed out in the Consumer Information Advisory Panel meetings, the rates contained in a consumer information label would be difficult to calculate and be misleading when a portfolio mix is being used to supply customers. There were also numerous implementation issues raised regarding when and where the label needs to appear in advertising. The REDCs believe that preparing the consumer information label, disclosure report and terms of service when there is no direct access activity or retail competition is a waste of time and resources.

## **RURAL ELECTRIC DISTRIBUTION COOPERATIVE ISSUES WITH RULES**

### **Issue No. 1**

R14-2-1606(B)

Any changes to this section that are necessary due to the Track A and Track B proceedings must maintain the language that this section applies only to “investor owned” Utility Distribution Companies and not to the REDCs.

### **Rationale**

With the exception of Navopache the REDCs have signed all or partial requirements contracts with Arizona Electric Power Cooperative, Inc. (“AEPCO”) whose terms currently expire December 31, 2020. However, RUS periodically requires the extension of the terms of the Wholesale Power Contracts, in this case, beyond 2020, when AEPCO applies for new financing to cover plant additions. In the event R14-1606(B) were amended to require the Rural Electric Distribution Cooperatives to obtain some of their power by bidding or to otherwise obtain their power from entities other than AEPCO, this would clearly impair the obligations of the Wholesale Power Contracts. This would also place the REDCs in default as to their loan documents with RUS and would have an immediate and very substantial adverse impact on the consumers of the REDCs. AEPCO’s current and future loans from RUS and CFC are predicated on these all or partial requirements contracts. Navopache takes its power supply from Public Service Company of New Mexico (“PNM”) under a ten-year Power Sale Agreement.



## **Issue No. 2**

R14-2-1615

Any changes to this section that are necessary due to the Track A and Track B proceedings must maintain the language contained in R14-2-1615(C)

### **Rationale**

R-14-2-1615 (A) discusses a requirement that competitive generation assets and services be separated from an Affected Utility by January 1, 2001. R14-2-1615 (C) states “An Electric Distribution Cooperative is not subject to the provisions of R14-2-1615 unless it offers competitive electric services outside its distribution service territory.” The REDCs are not vertically integrated. Each of the REDCs is separate from generation and transmission. Consequently, the Commission granted an exemption to the REDCs when the rules were adopted, and this exemption should be maintained.

The REDCs also believe the Commission should re-examine and reject the prohibition on Affected Utilities and UDC’s being able generally to provide competitive services. This prohibition disadvantages both competitive and standard offer customers and denies both various efficiencies and economics of scale. It also arbitrarily keeps some of the best and most dependable providers, i.e. Affected Utilities and UDC’s, out of the market.